Testimony of

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Chair Maloney, Ranking Member Gillmor, and members of the Subcommittee, I am Wayne Rushton, Chief National Bank Examiner at the Office of the Comptroller of the Currency. I appreciate this opportunity to talk with you about mortgage lending in national banks, and our supervision of it, especially subprime lending - now so much in the news.

I bring the perspective of 42 years as a national bank examiner, during good times and bad. During that time, I've had the opportunity to examine banks throughout the country, and I've spent the last decade here in Washington working on bank supervision policy.

We are very concerned about problems in the subprime market. Yet it's easy to forget in this environment that subprime loans have enabled millions of Americans – including many low and moderate income people – to become homeowners for the first time. Most of these folks are paying their loans on time and are expected to continue doing so. This reminds us that not all subprime loans are inherently predatory or abusive. But those that are have no place in the banking system.

When unfair treatment does occur, we in government have a distinct responsibility to help make it right, and we take that responsibility very seriously. However, OCC bank supervision is aimed primarily at preventing abusive practices <u>before</u> they occur - <u>before</u> damage is done.

OCC became concerned in 2002 with the growth of exotic mortgages that have the potential for a big payment shock, and we responded in an escalating fashion, both formally and informally, privately and publicly. By 2005, we were instructing our examiners to more aggressively address the risks of these products during examinations of national banks – at a time, I might add, when home prices were still rising – because we concluded that standards had slipped far enough. That intervention is one reason why you will find few payment-option ARMs in national banks today. Shortly after that, we initiated the interagency process that resulted in the nontraditional mortgage guidance that was issued last Fall.

Our attention today, though, is focused on the subprime sector, and especially hybrid ARMs, which are the bulk of the new subprime business. By their very nature, borrowers who take out subprime loans tend to be especially vulnerable to payment shock, which can be severe with hybrid ARM products. Plus the structure and size of prepayment penalties on these hybrids can be a major obstacle when borrowers try to refinance out of them. We’ve addressed these and other important issues in the guidance that’s now out for comment.

The Subcommittee's invitation letter specifically asked what we expect the results of that guidance will be – both positive and negative. To be sure, there needs to be a return to more realistic underwriting standards, and the guidance should have that positive effect. It makes no sense to make loans that can't be repaid. But we cannot ignore the likelihood that tighter underwriting will mean fewer - and smaller - loans.

I want to emphasize, Madame Chair, that national banks are not dominant players in the subprime market. Last year they produced less than 10% of all new subprime mortgages, and their delinquency rates run only about half the industry average. We know of some institutions that have actually abandoned the national bank charter rather than submit their subprime lending to supervision by the OCC.

But statistics don't matter much to someone who's in danger of losing their home.

OCC strongly urges national banks to work closely with troubled borrowers to help resolve their problems.

It's an unfortunate fact, though, that regulatory oversight tends to be less rigorous in precisely those parts of the financial system where practices are most problematic. We hope the guidance that we've proposed will inspire comparable measures by other regulators, just as happened with the nontraditional guidance last Fall.

Madam Chair, our capital and credit markets have enabled record levels of homeownership. We regulators play an important role in overseeing these markets and in taking actions when necessary to maintain fairness and equilibrium. But our authority does not extend to important components of the subprime market, including many originators, aggregators, securitizers, and funding sources.

In conclusion, let me assure you that my colleagues and I at the OCC are committed to bank safety and soundness – and fair treatment of consumers – and we do this through supervision that stems abuse without stifling healthy innovation. Consumers deserve no less.

We look forward to working with the Subcommittee. I'll be pleased to answer your questions.